DIRECT TESTIMONY

OF

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RATES DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

ILLINOIS POWER COMPANY

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Q. Please state your name and business address.

A. My name is William G. Saxe. My business address is 527 East Capitol Avenue, P.O. Box 19280, Springfield, Illinois, 62794-9280.

Q. By whom are you employed and in what capacity?

A. I am currently employed by the Illinois Commerce Commission (Commission) as a Senior Analyst in the Rates Department of the Financial Analysis Division. I have previously testified before the Commission on numerous issues.

Q. Please describe your educational and professional background.

A. In December of 1985, I received a Bachelor of Science degree in Economics from the University of Wisconsin-Madison. In May of 1990, I received a Master of Business Administration degree, with a concentration in Finance, from the University of Wisconsin-Madison. I joined the Staff of the Commission (Staff) in September of 1990. From September 1990 to October 1994, I was a Financial Analyst in the Finance Department of the Public Utilities Division. In October of 1994, I moved to the position of Economic Analyst in the Economic Development

Program of the Energy Programs Division. I was promoted to Senior Analyst in December of 1995. When the Commission reorganized in December of 1997, I was transferred to my present position of Senior Analyst in the Rates Department of the Financial Analysis Division.

Q. What are your responsibilities in this proceeding?

A. I have been assigned to this case to review IP's Application for a Transitional Funding Order and Petition (Application), from a rate design perspective, to verify that the filing is in compliance with the Illinois Public Utilities Act (Act).

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to address the following items regarding the Instrument Funding Charges (IFC) to be imposed under IP's Application:

- Who is required to pay the IFC?
- How will the IFC be allocated among the applicable customers?
- Will the IFC increase the rates for tariffed services?

Q. Please define IFC.

A. As defined in 220 ILCS 5/18-102 of the Act, IFC "…means a non-bypassable charge expressed in cents per kilowatt-hour authorized in a transitional funding order to be applied and invoiced to each retail customer, class of retail customers of an electric utility or other person or group of persons obligated to pay any base rates, transition charges or other rates for tariffed services from which such instrument funding charge has been deducted and stated separately pursuant to subsection (j) of Section 18-104."

Q. Who is required to pay the IFC under IP's Application?

A. Company witness Kevin D. Shipp states that "[t]he IFC associated with a series of transitional funding instruments ("TFI") will be imposed on each retail customer of Illinois Power, class of retail customers of Illinois Power, or other person or group of persons obligated to pay any base rates, transition charges or other rates for tariffed services on or after the date that a series of TFI is issued, including any retail customer taking a tariffed service from Illinois Power on or after that date who subsequently takes fully-bundled contract service or other competitive service from the Company and no longer pays any base rates, transition charges or other rates for tariffed service to Illinois Power." (IP Exhibit 4.1, pp. 3-4)

Q. Is the listing of customers who are required to pay the IFC under IP's Application in compliance with the requirements of Article 18 of the Act?

A. Yes. As previously stated, Section 18-102 of the Act states that the IFC will be imposed on all retail customers paying tariffed rates. In addition, Section 18-104(a) of the Act states that a utility can "…impose and collect the specified instrument funding charges from retail customers, classes of retail customers, and any other persons or group of persons as set forth in the pertinent transitional funding order…". Therefore, Article 18 of the Act appears to permit IP to impose the IFC on all retail customers paying tariffed rates to IP, and all contract customers that would have paid tariffed rates absent the contract.

Q. Do you agree with the Company's request to impose the IFC on non-tariffed contract customers?

A. Yes, I do. Section 18-102 of the Act clearly requires the IFC to be applicable to all retail customers that take tariffed service from IP, including customers that take energy from an alternative retail electric supplier (ARES) and delivery service from IP. Mr. Shipp states that the Company has proposed imposing the charge on customers taking fully-bundled contract service "…to ensure that the stream of revenues is derived from as broad a group of customers as possible…" (IP Exhibit 4.1, p. 5, ll. 1-3) For this reason, it seems appropriate to also impose the IFC on non-tariffed contract customers that take both energy and delivery services from IP. It would be inconsistent to impose the IFC on customers that take bundled tariffed service from IP, while customers that take non-tariffed bundled contract service would be exempt from paying the IFC. Likewise, it would be inconsistent to impose the IFC on customers that take energy from an ARES and delivery service from IP, while customers that take both energy and delivery services from IP would be exempt from paying the IFC. Therefore, Staff agrees with IP's request to impose the IFC on all non-tariffed contract customers.[1]

Q. Will all retail customers taking electric service in IP's service territory be required to pay the IFC under IP's Application?

[1] Customers taking service under contracts entered into with IP prior to the effective date of the Electric Service Customer Choice and Rate Relief Law of 1997 (Statute), which was enacted on December 16, 1997, are taking tariffed services since these contracts were either approved by the Commission or the contracts were filed under an existing tariff.

A. No. It appears that the only retail customers that will not be required to pay the IFC are customers that install and operate their own generating facilities to meet all of their electricity needs. The IFC will not be applicable to these customers since they would not be taking any services from IP and thus, would not be paying IP any tariffed or non-tariffed charges.

Q. How has IP proposed that the IFC be allocated among the customers required to pay the charge?

A. Mr. Shipp states that "[t]he total IFC will be allocated among customer classes by taking the ratio of the 1996 base rate revenue of each class subject to the IFC to the Company's total 1996 base rate revenue. Then, each class' share of the total IFC is divided by the expected kilowatt-hour ("kwh") deliveries and sales to the class for the succeeding period. IP Exhibit 4.2, pages 1 and 2, illustrates how the allocation and cents per kilowatt-hour IFC to each class are determined." (IP Exhibit 4.1, p. 7, ll. 1-10)

Q. Is IP's allocation proposal in compliance with Article 18 of the Act?

A. Yes. Section 18-103(d)(4) of the Act states that "the instrument funding charges authorized in such order shall have been allocated among classes of retail customers in accordance with percentage ratios determined by dividing the base rate revenue from each class by the electric utility's total base rate revenue for the 1996 calendar year;". Because the Statute does not define the term class, IP chose to group the various service classifications into the following classes: a) Firm Service; b) High Load Factor Firm Service; c) Non-Firm Service; d) Large Commercial; e) Small Commercial; f) Residential; and g) Municipal.

While IP's class design is different than the typical classes as listed for revenue purposes in FERC FORM NO. 1 and FORM 21 ILCC Utility Annual Reports (i.e., Residential, Commercial, Industrial, Public Street and Highway Lighting, Other Sales to Public Authorities, and Sales to Railroads and Railways), the classes that IP will use to allocate the IFC appear reasonable.

Q. Will the IFC charge not result in higher rates for IP's retail customers as required by Section 18-103(d)(5) of the Act?

A. IP's Application states that "…the issuance of the TFI and the imposition of the IFC in accordance with the TFO will not cause IPC's base rates, transition charges or other rates for tariffed services paid by any retail customer of IPC, class of retail customers of IPC or other person or group of persons obligated to pay such rates (a) to exceed the levels then in existence, as adjusted for the rate decreases provided in §16-111(b) of the PUA, or (b) to increase above the levels which IPC would have been allowed to charge had it not been authorized to impose and collect IFC." (IP Application, p. 7, item 11) Mr. Shipp states that because the IFC charge will be offset by an equal credit, "…each customer will pay the same total charges that the customer would pay absent the IFC." (IP Exhibit 4.1, pp. 8-9)

Q. In accordance with 18-104(j) of the Act, has the IFC "…been deducted, stated, and collected separately from base rates and transition charges, and where applicable, other rates for tariffed services otherwise in effect at such time…"?

A. Although IP's proposed Rider IFC tariff (IP Exhibit 4.3) will not be filed with the Commission until after the TFI are issued, based on the following information Staff is confident that the IFC tariff will be set-up correctly. First, IP's Application states that "[t]he IFC will be deducted and separately stated from the charges to be billed to Illinois Power's retail customers or other persons or groups of persons obligated to pay any base rates, transition charges or other rates for tariffed services from which such IFC has been deducted pursuant to §18-103(d)(3) and §18-104(j), and such base rates, transition charges and other rates for tariffed services will be correspondingly reduced." (IP Application, p. 6, item 10) In addition, IP's proposed Rider IFC tariff clearly states that the "…IFC shall be deducted, stated, and collected separately from the amounts otherwise billed by the Utility for charges under any of the Applicable Rates. (IP Exhibit 4.3, p. 1)

However, in order to give Staff ample opportunity to confirm the appropriateness of the actual IFCs set forth in the tariff, I recommend that IP be required to file its proposed tariff with the Commission at least three business days prior to the effective date of the tariff. During a July 21, 1998, telephone conversation, IP agreed to file the Rider IFC tariff with the Commission three business days prior to the effective date of the tariff.

Q. Does this conclude your direct testimony?

A. Yes, it does.